

ADV Part 2

1. Cover Page

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This narrative brochure is written to address eighteen topics the Securities and Exchange Commission believes are important to investors when evaluating investment advisers. This brochure has been written by Rembert Pendleton Jackson (RPJ) and submitted to the SEC.

2. Material Changes

There have been no material changes in the business or investment philosophy and the advisory services and primary market during the past year. Accordingly, the only potential material change reflected in this narrative brochure is the business decision to, going forward, no longer offer clients the option to pay for advisory services an hourly basis. Instead we will use a flat fee basis.

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4. Advisory Business

- a. RPJ is an investment and financial advisor to high net worth individual, business and institutional clients. It is a “fee-only” advisory firm and has been solely registered with the Securities and Exchange Commission since 1984. The firm is owned entirely by principals of the firm. The three principals who own 25% or more are: Donald Rembert, Newton Pendleton and Charles Rembert.
- b. Our financial planning services for families and individuals may include every aspect of a client’s financial life; i.e.: evaluating insurance needs, income tax, cash management, estate, education, retirement, and special needs, and planned-giving planning.

Our financial planning services for institutional clients may include creating, reviewing and monitoring investment policy statements, investment portfolios, and cash management, as well as special needs related to fiduciary education, succession planning and investment management training.

Our investment advisory services are rooted in our status as fiduciaries. As fiduciary advisors, we must put our clients’ best interests first, disclose any actual or potential conflicts of interest, treat all client information in strict confidence, and, generally, adhere to the highest ethical standards managing client financial affairs. Furthermore, we are only compensated through our clients’ fees. This means we do not receive any compensation other than our client fees. We do not receive commissions, fees, or bonuses from the investment recommendations we make from any third party.

RPJ’s investment supervisory services encompass an assessment of the client’s financial situation; risk tolerance and time horizon, followed by asset allocation, investment selection, and investment implementation recommendations. RPJ meets with clients to review performance periodically, this means quarterly, to annually, or any time on an as-needed basis.

- c. All RPJ services are tailored to the needs of our individual clients, based on a review, as noted above, of a client’s financial situation, risk tolerance and time horizon. In this context, we always adhere to guidelines and requirements of the investment policy statements, and will, if required, restrict certain types of securities or investments from the portfolio, accordingly.
- d. Not Applicable. RPJ does not act as a portfolio manager to wrap fee programs.
- e. On 12-31-11, RPJ’s assets were:
\$717,181,058. All accounts are non-discretionary, but for seven accounts with assets of \$4,099,145.

5. Fees and Compensation.

- a. For investment advisory services, compensation is typically derived as fee income based on assets under management (AUM). AUM fees do not exceed 1%, and the compensation method and amount is explained and agreed to in advance in the letter of engagement. Flat fees and AUM fees are usually paid quarterly in advance. For financial planning services, fees may be on a retainer. In all instances for all services, RPJ is only compensated by its clients and receives no compensation from any third party.
- b. Typically, for AUM fee payments, these fees are deducted from client accounts. Alternatively, the client may choose instead to be invoiced quarterly.
- c. Separate from RPJ fees, the clients will also be charged fees and expenses from the mutual funds or ETFs. These fees and expenses are described in the fund prospectus. Also, the clients will be charged fees from the custodians and the costs of transactions. Clients should review all fees and expenses charged by RPJ, mutual funds or ETFs and custodians to fully understand their investment related expenses.
- d. Clients (as noted above) are charged AUM and retainer fees quarterly in advance. Clients may terminate their agreement with a 30-day written notice. Upon termination, the fees charged in advance for services will be pro-rated and a refund for any unearned fees will be issued.
- e. Not Applicable. RPJ does not accept compensation for the sales of securities or investment products.

6. Performance Fees.

Not Applicable. RPJ does not charge performance fees.

7. Types of clients.

The types of clients RPJ serves are individuals, pensions and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. The RPJ general minimum account size is \$500,000; however, we also waive this minimum for individuals referred by current clients.

8. Methods of Analysis, Investment Strategies.

A. Introduction

An "asset allocation" decision is a determination of how investment dollars are to be distributed among various categories or classes of investments: e.g., domestic and international fixed income instruments, domestic and international stocks, real estate, natural resources, precious metals, managed futures, etc.

One of the key tenets of Modern Portfolio Theory, as developed by the Nobel Prize economist, Dr. Harry M. Markowitz, is that more efficient investment portfolios can be created by diversifying among asset categories with low to negative correlation (i.e., the returns from one investment are not related or inversely related to returns from the other). For example, adding a component of international stocks to a portfolio consisting exclusively of domestic stocks can both increase the portfolio's return *and* reduce the portfolio's risk (i.e., variability of return).

In fact, several studies have determined that the asset allocation decision has a much greater impact on the long-term performance of an investment portfolio than market timing or securities selection. As much as 92 percent of a portfolio's performance can be attributed to the asset allocation decision, while only two percent is attributable to market timing decisions, five percent to security selections and one percent to random luck. (See Roger G. Ibbotson and Paul D. Kaplan, "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?" *Financial Analysts Journal*, January/February 2000.)

Successful asset allocation requires that two important criteria be addressed:

1. The various asset classes should have a relatively low correlation with each other.
2. Each component should be profitable in and of itself over extended periods of time.

This second criterion addresses a misconception regarding the concept of correlation. The misconception goes something like this: "If two investments have a negative correlation, then over the long run the returns from these two investments cancel each other out." This is not the case. The net result of a portfolio appropriately diversified across dissimilar investments is an increase in the risk-adjusted rate of return.

A client's financial circumstances, relevant time horizon and risk tolerance combine to determine whether his/her portfolio should be structured for greater principal stability with correspondingly lower returns, or alternatively, for high growth at the price of more volatility. In either case, the goal is to use the best allocation across the various asset categories to achieve the highest expected return *relative to* the risk assumed.

B. Recommended Core Allocation

Designing an investment portfolio consists of several steps:

1. Deciding which asset categories will be represented in the portfolio.
2. Determining the long-term "target" percentage of the portfolio to allocate to each of these asset categories.

It is important that your Core Portfolio be able to react well to every broad movement in the economy: prosperity, inflation, tight money, and deflationary depression. These four economic environments frequently overlap. Inflation often is rising toward the end of a period of prosperity, and does not start declining until after many months of tight money. Tight money often leads to a recession or ultimately to deflationary depression.

Each economic environment subjects your portfolio to various risks. "Risk" may be defined as *the measurable possibility of losing or not gaining value*. Among the commonly encountered types of risk are these:

Inflation risk: the danger discussed above that rising prices will reduce the purchasing power of an investment.

Interest rate risk: the possibility that an investment will decline in value as a result of a rise in interest rates.

Economic risk: the possibility that slower economic growth will cause investments to fall in price.

Market risk: the risk that pervades all investments and cannot be avoided because it is inherent in the overall market.

Specific risk: any occurrence that may affect only a particular company or industry.

Liquidity risk: the possibility that an investor will not be able to sell an investment quickly enough or in sufficient quantities because buying and selling opportunities are limited.

Currency risk: the chance of loss on foreign currency exchanges.

Political risk: the possibility of nationalization or other unfavorable government action.

Each category of asset is vulnerable to some of the above risks while protecting your portfolio from others. Thus, when one class goes down, the other usually goes up – or at least sits still. Here safety lies not so much in numbers, but in a choice of assets that will offset each other's vulnerabilities. A portfolio can be composed of various asset classes that theoretically will move like pistons in an engine, each periodically cycling through its high point.

For the Core Portfolio to succeed, the investments within each asset class must be tied reliably to the economic/investment climate that the asset class is meant to cover.

9. Disciplinary Information

Not Applicable. RPJ has no legal or disciplinary events that are material to how the firm may be viewed by a client or prospective client.

10. Other Financial Industry Activities and Affiliations.

Donald M. Rembert is a licensed real estate broker in Virginia. As such he may receive commissions when selling real estate.

11. Code of Ethics, Participation or Interest in Client Transactions & Personal Trading

a. RPJ has adopted a very rigorous code of ethics and a copy of the RPJ Code is available to clients and prospective clients upon request. As its foundation, the RPJ Code requires that:

“All employees, directors, officers, partners, and consultants closely associated with the firm conduct themselves with “competence, dignity, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets, (and) place the interests of clients above one’s own personal interests”

Further, the Code of Ethics describes controls over personal trading of employees (noted below), the governing ethical standards and principles of the company, policies regarding the protection of confidential information.

- b. RPJ related persons do not participate or have an interest in client transactions as a principal, or broker or agent, or have an interest in any investment products or securities recommended to clients.
- c. RPJ employees may buy or sell securities for themselves that are also recommended to clients. This may present a conflict of interest; however, RPJ client transactions will be placed before any transactions for RPJ or its associated persons in order to ensure the best price and execution are procured for RPJ clients. Records will be maintained for all securities bought and sold by RPJ , associated persons or related entities. Such records will be available for client inspection upon request.

12. Brokerage Practices.

- a. Not applicable. RPJ does not currently accept soft dollars. However, it reserves the right to do so.
- b. Not applicable. RPJ does not receive client referrals for selecting broker-dealers.
- c. Directed Brokerage. RPJ does not routinely recommend or request clients to direct execution through a particular BD. RPJ executes trades for our clients through various BDs. Most trades will, generally, be placed with the BD that has custody over client assets. However, when RPJ has been given execution discretion, our guiding principle is to trade through the BD that offers the best overall execution in the facts and circumstances. We consider a number of qualitative factors including the handling of the order, the ability of the BD to settle the trade promptly and accurately, the financial standing of the BD, our past experience with similar trades, and other factors which may be unique to the particular order. Based on these considerations, we may trade through a BD that is not the lowest cost provider.
- d. RPJ does not aggregate trades.

13. Review of Accounts.

Accounts are managed on a continuous basis, and each account is reviewed quarterly by one of the investment committee's members. Reviews are based on client investment strategies and the firm's investment strategies. The account reviews consider the client's risk tolerance, cash flow needs, investment objectives, and tolerance for volatility, in light of market conditions and unique client circumstances. Clients received a quarterly written report from RPJ.

14. Payment for Client Referrals.

RPJ does not receive any compensation for client referrals.

RPJ does participate in the advisory service platforms of Charles Schwab and TD Ameritrade Institutional. While there is no direct association between the investment advice given and participation in the programs, economic benefits are received from RPJ's participation. These benefits may include: receipt of duplicate client confirmations and bundled duplicate statements, access to a trading desk exclusively for participants, compliance publications, participation in their conferences, and access to mutual funds that may otherwise only be accessible to institutional investors or investors with higher minimum investments.

15. Custody.

In a very rare circumstances, such as when RPJ serves as a trustee, RPJ retains custody of client funds. In these circumstances RPJ will explain that clients will receive a quarterly statement from their custodian, and these statements should be reviewed carefully and compared to the RPJ quarterly statements.

16. Investment Discretion.

Rembert Pendleton Jackson does not have discretion over client accounts, except in the case when a firm principal serves as trustee or power of attorney, the principal has the authority to manage the account without client consent. When a firm principal serves as a trustee, the principal has the authority to manage the account without client consent. In doing so, the overriding parameter is set by the fiduciary obligations of loyalty, good faith and utmost due care. Also, clients may provide additional limitations on the discretion in writing. The roles of trustee or power of attorney are established by the client designating the firm principal in a formalized legal document.

17. Voting Client Securities.

RPJ may only exercise proxy-voting authority over client securities when serving as a trustee. Here, the CCO is charged with identifying the proxies, voting the proxies in the best interest of the client, and promptly submitting the proxies. RPJ's policy is to vote proxies in the interest of maximizing shareholder value, in consideration of both short and long term implications.

Presently, we have identified no conflicts of interest between our clients' interests and the interests of RPJ. However, if we were to identify a material conflict in any circumstance, by firm policy we would contact the client and ask how the clients would like the vote cast. RPJ's complete proxy voting record and proxy voting policies and procedures are available upon request for clients review.

18. Financial Information.

- a. Not Applicable. RPJ does not require or solicit any fees more than six months in advance.
- b. Not Applicable. RPJ does not have any financial condition or situation that might impair its ability to meet its contractual commitments.
- c. Not Applicable. There have been no bankruptcy proceedings involving the advisor during the last ten years.